



Holloway
LODGING

Real Estate Investment Trust

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008**

Dated as of August 11, 2008

INTRODUCTION

The following management's discussion and analysis ("MD&A") is a discussion of the results of operations and financial condition of Holloway Lodging Real Estate Investment Trust ("Holloway" or the "REIT") for the three and six months ended June 30, 2008 and should be read in conjunction with the unaudited interim consolidated financial statements of the REIT and the notes thereto as at and for the three and six months ended June 30, 2008, the audited consolidated financial statements and the notes thereto for the year ended December 31, 2007 and the MD&A thereon.

The financial statements of Holloway are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. This MD&A includes forward-looking information. Forward-looking information is subject to certain risks and uncertainties, which could result in actual results differing materially from the forward-looking information. See "Forward-Looking Information".

Additional information about the REIT filed with the applicable Canadian securities regulatory authorities, including the unaudited financial statements of the REIT and the notes thereto, are available at www.sedar.com. The REIT's units and convertible debentures are publicly traded on the TSX under the symbols HLR.UN, HLR.DB and HLR.DB.A, respectively.

HIGHLIGHTS OF THE THREE MONTHS ENDED JUNE 30, 2008

The following summarizes the key highlights for the three months ended June 30, 2008:

- distributable income increased by 104% to \$3.2 million (\$0.08 per unit) from \$1.6 million (\$0.08 per unit) for the three months ended June 30, 2008 and 2007, respectively;
- hotel revenues increased by 82% to \$23.7 million from \$13.0 million for the three months ended June 30, 2008 and 2007, respectively;
- hotel EBITDA per available room increased by 7.2% to \$36.61 from \$34.16 for the three months ended June 30, 2008 and 2007, respectively;
- hotel EBITDA margin increased by 4.5 percentage points (15.2%) to 34.1% of revenue from 29.6% for the three months ended June 30, 2008 and 2007, respectively.

OVERVIEW OF HOLLOWAY LODGING REIT, ITS STRATEGIES AND OBJECTIVES

Holloway is an open-ended real estate investment trust that was formed under the laws of the Province of Ontario pursuant to a Declaration of Trust on March 28, 2006. 2006 was the initial year of active operations for the REIT. The REIT owns 22 hotel properties with 2,423 rooms and suites.

Holloway's Operating Strategy and Objectives

Holloway's principal business is to invest, directly or indirectly, in the ownership and operation of hotel properties. The management of the REIT has considerable expertise in hotel operations and management and possesses the resources necessary to maximize revenue and profits from its hotel portfolio. The REIT capitalizes on the hotel operating, development, finance, and transactional experience of its management and Trustees.

The REIT's objectives are to:

- generate stable cash distributions on a tax-efficient basis;
- expand its asset base and increase its funds from operations through accretive acquisitions and internal growth initiatives; and
- enhance the value of its assets to provide unitholders with long-term unit value and maximum cash distributions through active asset management.

The REIT intends to make stable cash distributions to unitholders on a monthly basis.

Our mission is to strategically grow to become one of North America's top-performing lodging REITs. In 2006 and 2007, the REIT acquired 8 and 14 hotels, with 934 and 1,489 guest rooms and suites, respectively. The REIT continues to explore accretive acquisition opportunities.

PORTFOLIO OF HOTELS

Holloway's portfolio consists primarily of limited service hotels with a small number of full service hotels. The table below provides details on the twenty-two hotels owned by Holloway as at June 30, 2008.

Property	City	Acquisition Date	Number of Rooms
CANADA			
Alberta			
Super 8 Motel	Drayton Valley	August 4, 2006	60
5 Calgary Downtown Suites & Spa Hotel	Calgary	August 23, 2006	302
Wingate by Wyndham	Calgary	September 1, 2006	103
Radisson Hotel and Suites	Fort McMurray	January 31, 2007	134
Super 8 Motel	Three Hills	April 13, 2007	82
Super 8 Motel	Slave Lake	June 22, 2007	58
Super 8 Motel	Whitecourt	June 22, 2007	59
Super 8 Motel	High Level	June 22, 2007	81
Super 8 Motel	Grande Prairie	June 22, 2007	149
Holiday Inn	Grande Prairie	June 22, 2007	146
Best Western	Grande Prairie	June 22, 2007	100
Pomeroy Inn and Suites	Grande Prairie	June 22, 2007	152
Northwest Inn	Slave Lake	June 22, 2007	99
		Total Rooms/Suites	1,525
British Columbia			
Super 8 Motel	Fort St. John	June 22, 2007	93
Super 8 Motel	Fort Nelson	June 22, 2007	142
Holiday Inn Express	Kamloops	September 12, 2007	80
		Total Rooms/Suites	315
New Brunswick			
Holiday Inn Express and Suites	Moncton	August 4, 2006	151
		Total Rooms/Suites	151
Northwest Territories			
Super 8 Motel	Yellowknife	September 29, 2006	66
		Total Rooms/Suites	66
Nova Scotia			
Super 8 Motel	Truro	June 7, 2006	50
Radisson Suite Hotel	Halifax	August 4, 2006	104
Holiday Inn Express	Halifax	August 4, 2006	98
		Total Rooms/Suites	252
UNITED STATES			
South Carolina			
Holiday Inn Express	Myrtle Beach	November 2, 2007	114
		Total Rooms/Suites	114
		GRAND TOTAL	2,423

Approximately 63% of Holloway's hotel rooms and suites are located in Alberta.

NON-GAAP LODGING INDUSTRY PERFORMANCE INDICATORS

The following describes the key performance measures and financial indicators commonly used by lodging REITs.

Occupancy, Average Daily Rate and Revenue Per Available Room

The key performance measures used to measure performance in the lodging industry are occupancy, average daily rate (“ADR”) and revenue per available room (“RevPAR”). These are non-GAAP measures.

Occupancy represents the number of rooms sold compared to the total number of rooms in the hotel. Average daily rate is defined as room revenue divided by the number of rooms occupied / sold. RevPAR for any given period is defined as total room revenue divided by the total number of rooms in the hotel multiplied by the number of days in the period. RevPAR is relevant as it is the most commonly used indicator of market performance for hotels and represents the combination of the ADR and the average occupancy rate achieved during a period. RevPAR does not include food and beverage or other ancillary revenues generated by a hotel.

Funds from Operations (“FFO”)

Funds from operations (“FFO”) is a non-GAAP financial measure commonly used in the lodging industry. The calculations presented may differ from similar calculations reported by other entities and accordingly, may not be comparable. The Real Property Association of Canada (“REALPac”) defines FFO as net income excluding depreciation and amortization on real property, extraordinary items, gains or losses on the sale of assets, provisions for impairment and future income taxes. Holloway calculates FFO in accordance with this definition. FFO provides another useful measure of the REIT’s performance as net income incorporates depreciation and amortization on real estate assets, which may not necessarily occur and is based on historical cost accounting. FFO should not be construed as an alternative to net income or cash flow from operating activities.

Distributable Income

Distributable income is another non-GAAP financial measure commonly used by real estate investment trusts as an indication of financial performance. The definition of distributable income is defined in the REIT’s Declaration of Trust and is set out below. Distributable income reflects the ability of the REIT to earn income and make cash distributions to unitholders. It should not be seen as a measurement of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. Distributable income may differ from similar calculations reported by other entities and accordingly, may not be comparable.

Distributable income is defined as the consolidated net income of the REIT and its subsidiaries for the period computed in accordance with GAAP adjusted for the following items:

- add backs:
 - depreciation and amortization;
 - future income tax expense;
 - losses on dispositions of assets;
 - amortization of any net discount on long-term debt assumed from vendors of properties at rates of interest less than fair value; and
 - amortization of deferred financing fees;
- deductions:
 - reserve for replacement of FF&E;
 - future income tax credits;
 - interest on convertible debentures to the extent not already deducted in computing net income;
 - gains on dispositions of assets; and

- amortization of any net premium on long-term debt assumed from vendors of properties at rates of interest greater than fair value;
- other adjustments as determined by the Trustees of the REIT in their discretion:
 - non-cash unit based compensation; and
 - unrealized gains or losses on foreign exchange.

Readers should refer to the table “Results of Operations for the Three and Six Months Ended June 30, 2008 and 2007” which follows for the reconciliation of net income to FFO and to distributable income.

Hotel EBITDA

Hotel EBITDA, a commonly used non-GAAP measure of performance in the lodging industry, is defined as income before interest, income taxes, depreciation and amortization. The REIT has also added back the expenses of the trust in the calculation of hotel EBITDA. These expenses include general and administrative, debenture and other interest, accretion of the discount on the convertible debentures and deferred financing fees, unit-based compensation, depreciation and amortization and expenditures related to abandoned property acquisitions, net of interest income from the trust operations.

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 and 2007

The following table provides a summary of the operating results for the three and six months ended June 30, 2008 and 2007.

(in 000's except number of units and per unit results)	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Hotel revenues	\$ 23,669	\$ 12,987	\$ 46,377	\$ 22,634
Hotel expenses	21,774	11,672	43,098	20,832
Income from hotel operations	1,895	1,315	3,279	1,802
Net trust expenses	1,870	910	3,845	1,796
Future income tax expense (recovery)	203	(382)	242	(382)
Net income (loss) for the period – basic and diluted	(\$ 178)	\$ 787	(\$ 808)	\$ 388
Weighted average basic units outstanding	39,108,768	19,342,346	39,130,759	18,012,963
Weighted average diluted units outstanding	39,108,768	19,494,780	39,130,759	18,168,228
Basic income (loss) per unit	(\$ 0.01)	\$ 0.04	(\$ 0.02)	\$ 0.02
Diluted income (loss) per unit	(\$ 0.01)	\$ 0.04	(\$ 0.02)	\$ 0.02
<u>Reconciliation to funds from operations (FFO)</u>				
Add/(deduct):				
Depreciation and amortization on real property	\$ 3,237	\$ 1,272	\$ 6,435	\$ 2,217
Future income tax expense	203	(382)	242	(382)
Funds from operations – basic and diluted	\$ 3,262	\$ 1,677	\$ 5,869	\$ 2,223
Basic FFO per unit	\$ 0.08	\$ 0.09	\$ 0.15	\$ 0.12
Diluted FFO per unit	\$ 0.08	\$ 0.09	\$ 0.15	\$ 0.12
<u>Reconciliation to distributable income</u>				
Add/(deduct):				
Depreciation and amortization – trust and other assets	\$ 63	\$ 18	\$ 127	\$ 33
Accretion on mortgages and convertible debentures ¹	538	174	1,058	319
Unit-based compensation	118	107	342	195
Unrealized foreign exchange (gain) loss	(31)	–	128	–
FF&E reserve	(710)	(390)	(1,391)	(679)
Distributable income – basic and diluted	\$ 3,240	\$ 1,586	\$ 6,133	\$ 2,091
Basic distributable income per unit	\$ 0.08	\$ 0.08	\$ 0.16	\$ 0.12
Diluted distributable income per unit	\$ 0.08	\$ 0.08	\$ 0.16	\$ 0.12
Distributions declared	\$ 0.135	\$ 0.1125	\$ 0.27	\$ 0.225
<u>Reconciliation of cash flow from operating activities to distributable income</u>				
Cash flow from operating activities	\$ 4,296	\$ 1,993	\$ 5,930	\$ 2,446
Changes in non-cash working capital balances	(346)	(17)	1,594	324
FF&E reserve	(710)	(390)	(1,391)	(679)
Distributable income	\$ 3,240	\$ 1,586	\$ 6,133	\$ 2,091

¹Includes the amortization of deferred financing fees which is included in interest expense in the financial statements.

THREE MONTHS ENDED JUNE 30, 2008 and 2007

Results of Operations

The results of operations for the three months ended June 30, 2008 include the operation of twenty-two hotels for the full quarter. The dollar value of revenues and expenses has increased substantially when comparing the second quarter results for 2008 to the second quarter of 2007 as the REIT owned twenty hotels at the end of the second quarter of 2007, of which ten hotels were acquired on June 22, 2007.

Hotel Operations

The hotel properties generated revenue of approximately \$23.7 million for the three months ended June 30, 2008 compared to \$13.0 million for the three months ended June 30, 2007. Hotel EBITDA has increased to \$8.1 million from \$3.8 million, an increase of 110%. Depreciation and amortization has increased substantially due to the growth in the asset base.

Key Performance Measures

The following table provides information on occupancy, ADR and RevPAR for the three months ended June 30, 2008.

Region	3 Months Ended June 30, 2008		
	Occupancy	ADR	RevPAR
Atlantic Canada	76.51%	\$125.25	\$95.83
Western Canada	63.05%	\$147.78	\$93.18
United States	71.62%	\$102.08	\$73.11
Totals	65.69%	\$141.06	\$92.66

Overall demand during the three months ended June 30, 2008 was particularly strong in Halifax, NS, Truro, NS, Yellowknife, NT, Fort McMurray, AB, Kamloops, BC, and Fort St. John, BC.

Demand in Drayton Valley, AB was suppressed due to increased supply. Demand in Three Hills, AB was impacted by reduced oil and gas exploration activity in the area.

Same Hotel Key Performance Measures

The following table provides information on occupancy, ADR and RevPAR for the three months ended June 30, 2008 and June 30, 2007, for the nine hotels which were owned for the entire second quarter in 2007 and 2008.

Region	3 Months Ended June 30, 2008			3 Months Ended June 30, 2007			RevPAR Change
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	
Atlantic Canada	76.51%	\$125.25	\$95.83	73.98%	\$117.92	\$87.24	9.8%
Western Canada	73.75%	\$152.15	\$112.21	71.03%	\$143.63	\$102.02	10.0%
Totals	74.79%	\$141.77	\$106.03	72.15%	\$133.67	\$96.44	9.9%

The Atlantic Canada RevPAR has increased 9.8% for the three months ended June 30, 2008 compared to the three months ended June 30, 2007. All hotels in this region experienced strong growth with the Holiday Inn Express and Suites in Moncton leading the group on the strength of increased sports and corporate group business. The RevPAR of

the Moncton competitive set experienced solid growth in the second quarter year over year as the market returned to the 2006 levels after a pronounced decline in 2007 due to new supply. Strong growth was also achieved in both the Halifax and Truro markets. The Radisson Suite Hotel in Halifax achieved RevPAR growth in excess of what was achieved by the downtown Halifax competitive set. The Holiday Inn Express in Halifax continues to lead their competitive set in RevPAR penetration. Both the Moncton and the Halifax markets have experienced new entrants to their respective competitive sets' within the last year.

Western Canada RevPAR increased by 10.0%. The growth was led by the Radisson Hotel and Suites in Fort McMurray. This hotel has achieved significant gains in both occupancy and ADR since its acquisition in January 2007. Market share data is not shared among hotels in this market. The 5 Calgary Downtown Suites and Spa hotel also achieved solid growth this quarter due to a continued buoyant market. The Super 8 in Drayton Valley experienced a slight decline in RevPAR due to supply increases from new entrants to the market, however it continues to lead its competitive set in RevPAR penetration. The Wingate by Wyndham in Calgary declined due to lower occupancy. The Wingate by Wyndham in Calgary now has a new management team and increased sales efforts are underway.

Hotel EBITDA

Reconciliation of the net income to hotel EBITDA is presented in the table below:

(in 000's)	Three months ended June 30, 2008	Three months ended June 30, 2007
Net income	(\$ 178)	\$ 787
Net trust expenses	1,870	910
Depreciation and amortization	3,291	1,282
Interest on loans payable and accretion of financing fees	2,878	1,244
Future income tax expense (recovery)	203	(382)
Hotel EBITDA	\$ 8,064	\$ 3,841
Number of rooms available	220,293	112,441
Hotel EBITA per available room	\$36.61	\$34.16

Hotel EBITDA has increased by more than 100% due to the increase in the number of hotels owned by the REIT in the second quarter of 2008 compared to the second quarter of 2007.

Hotel EBITDA per available room increased by 7.2% to \$36.61 from \$34.16 for the three months ended June 30, 2008 and 2007, respectively, due to stronger performance by the Holiday Inn Express and Suites in Moncton and the Radisson Hotel and Suites in Fort McMurray.

Hotel EBITDA Margin Analysis

The following table provides the REIT's hotel margins for its base portfolio and its 2007 acquisitions for the three months ended June 30, 2008 and 2007.

(in 000's)			
2008	Base Portfolio	2007 Acquisitions ⁽¹⁾	Total
Hotel revenues	\$ 9,933	\$ 13,736	\$ 23,669
Hotel cost of sales	3,037	4,121	7,158
Hotel gross profit	\$ 6,896	\$ 9,615	\$ 16,511
Percentage	69.4%	70.0%	69.8%
Hotel overhead expenses ⁽²⁾	\$ 3,783	\$ 4,664	\$ 8,447
Hotel EBITDA	\$ 3,113	\$ 4,951	\$ 8,064
Hotel EBITDA margin	31.3%	36.0%	34.1%
2007			
Hotel revenues	\$ 10,072	\$ 2,916	\$ 12,988
Hotel cost of sales	3,313	1,140	4,453
Hotel gross profit	\$ 6,759	\$ 1,776	\$ 8,535
Percentage	67.1%	60.9%	65.7%
Hotel overhead expenses ⁽²⁾	\$ 3,824	\$ 870	\$ 4,694
Hotel EBITDA	\$ 2,935	\$ 906	\$ 3,841
Hotel EBITDA margin	29.1%	31.1%	29.6%
Variance			
Hotel revenues	(\$ 139)	\$ 10,820	\$ 10,681
Hotel cost of sales	276	(2,981)	(2,705)
Hotel gross profit	\$ 137	\$ 7,839	\$ 7,976
Percentage	2.3%	9.1%	4.1%
Hotel overhead expenses ⁽²⁾	\$ 41	(\$ 3,794)	(\$ 3,753)
Hotel EBITDA	\$ 178	\$ 4,045	\$ 4,223
Hotel EBITDA margin	2.2%	4.9%	4.5%

⁽¹⁾ The 2007 acquisitions represent hotels acquired in 2007.

⁽²⁾ Hotel overhead expenses include sales, marketing, general, administrative, maintenance, utilities, property taxes, insurance, management and other fees, land lease expense and foreign exchange. These expenses exclude depreciation, amortization, interest on mortgages and loans and accretion of deferred financing fees.

The increase in the hotel EBITDA margin to 34.1% from 29.6% for the three months ended June 30, 2008 and 2007, respectively was a result of the 2007 acquisition of properties located in markets with higher ADR relative to our base portfolio along with Holloway's continued focus on higher margin limited service hotels. The base portfolio EBITDA margin increased to 31.3% from 29.1% primarily due to lower cost of sales as a result of operating efficiencies due to the lease out of the food and beverage operation at the Radisson Suite Hotel in Halifax and closing the restaurant at the Holiday Inn Express and Suites in Moncton, which is expected to be converted to additional meeting space later in 2008. These operational changes permitted higher conversion of revenue to NOI for both of these hotels. These changes also accounted for the lower revenues as the decline in the low-margin food and beverage revenue was partially offset by high-margin room revenue in our markets throughout the Atlantic region. The acquisition portfolio EBITDA

margin increased to 36.0% from 31.1% primarily due to the performance of the Radisson Hotel and Suites in Fort McMurray. This was the only hotel in the acquisition portfolio which was comparable for the second quarter of 2008 versus the second quarter of 2007 due to the timing of the 2007 acquisitions.

Corporate Operations

Corporate net trust expenses were \$1.9 million for the three months ended June 30, 2008 and \$0.9 million for the three months ended June 30, 2007. Debenture interest expense and the non-cash accretion of the discount on the debentures has increased to \$1.8 million from \$0.7 million because the REIT has \$72.1 million in debentures outstanding compared to \$20.4 million outstanding for most of the second quarter of 2007. During the three months ended June 30, 2008, the REIT generated interest income of \$0.7 million from loans receivable and the investment of cash balances, compared to \$0.4 million in the second quarter of 2007.

General and administrative expenses were \$0.6 million for the three months ended June 30, 2008 compared to \$0.5 million for the three months ended June 30, 2007. These expenses include salaries and benefits of employees of the REIT, travel, fees related to legal, audit and annual filings, and other expenses.

Funds from Operations (“FFO”)

FFO for the three months ended June 30, 2008 was \$3.3 million (\$0.08 basic and diluted FFO per unit) compared to \$1.7 million (\$0.09 basic and diluted FFO per unit) for the same period in 2007. The significant growth in the portfolio of hotels has been the driver of the growth in funds from operations in the second quarter of 2008 compared to the second quarter in 2007.

Distributable Income

The REIT generated \$3.2 million in distributable income (\$0.08 basic and diluted per unit) for the three months ended June 30, 2008 compared to \$1.6 million (\$0.08 basic and diluted per unit) for the same period in 2007. Distributions of \$0.045 per unit per month were declared and totalled \$5.3 million for the three months ended June 30, 2008. Distributable income will fluctuate due to the seasonality in the hospitality industry and the timing of acquisitions.

The REIT's second quarter distributions exceeded the distributable income. Excess, un-deployed cash was used to fund the distribution shortfall. To help mitigate this shortfall and as described in the “RELATED PARTY AGREEMENTS” section, effective February 1, 2008, the management of 10 hotels purchased in June 2007 is now being performed by Pacrim Hospitality Services Inc. at a substantially reduced fee.

Cash flow for the Three Months Ended June 30, 2008 and 2007

During the three months ended June 30, 2008, the REIT's cash and cash equivalents decreased by approximately \$2.3 million from \$10.9 million to \$8.6 million. For the comparative period in 2007, cash and cash equivalents increased by \$24.2 million from \$12.2 million to \$36.4 million as a portion of the proceeds from the June 21, 2007 unit and debenture issuance had not been deployed at June 30, 2007.

Operating Activities

Cash flow from operations was approximately \$4.3 million for the three months ended June 30, 2008 reflecting the cash generated by the hotels and the corporate operations of the REIT. For the three months ended June 30, 2007 cash flow from operations was \$2.0 million. Changes in non-cash working capital balances provided approximately \$0.3 million during the three months ended June 30, 2008. An increase in accounts payable and accrued liabilities of approximately \$0.7 million and a decrease in the accrued interest on the convertible debentures of \$0.4 million at June 30, 2008 were the primary reasons for the change in the working capital balances.

Investing Activities

Investing activities utilized \$0.2 million in cash during the three months ended June 30, 2008. For the three months ended June 30, 2007, investing activities utilized \$214.9 million, primarily due to the acquisition of ten hotels on June 22, 2007.

During the three months ended June 30, 2008 and 2007, the REIT's capital reserves for replacement and improvements increased by \$0.5 million and decreased by \$0.3 million, respectively. There were additions of \$0.9 million to property and equipment primarily at the Radisson Hotel and Suites in Fort McMurray, Alberta and the Radisson Suite Hotel in Halifax, Nova Scotia for ongoing product improvement plans. During the three months ended June 30, 2007, additions to property and equipment totaled \$1.6 million due to the renovations and improvements at the Holiday Inn Express and Suites in Moncton, the Holiday Inn Express in Halifax and the Radisson Suite Hotel in Halifax.

In connection with mortgage financing on the Pomeroy Inn and Suites hotel acquired in 2007, the REIT issued a standby letter of credit in the amount of \$2.8 million in favor of the mortgage lender, secured by restricted cash. The mortgage lender required that certain renovations to the hotel, which are being made by the former owner under the terms of the purchase and sale agreement, be supported by the letter of credit. As the repairs are now complete, the restricted cash has been completely released for that project. During the three months ended June 30, 2008, the restricted cash was reduced by \$1.2 million. The restricted cash balance at June 30, 2008 represents funds held by the mortgagor on the Holiday Inn Express in Myrtle Beach, South Carolina for costs associated with a property improvement plan as well a reserve for replacement.

Financing Activities

Financing activities utilized \$6.4 million during the three months ended June 30, 2008, compared to providing \$237.1 million during the three months ended June 30, 2007. In June, 2007, the REIT issued 17.8 million units and \$45.0 million in 6.5% convertible debentures for net proceeds of \$90.9 million and \$43.3 million, respectively. In addition, the REIT obtained mortgage financing of \$105.2 million related to the properties acquired during the second quarter of 2007.

The REIT paid distributions to unitholders of approximately \$5.3 million for the three months ended June 30, 2008, compared to \$1.9 million in the three months ended June 30, 2007. The number of units outstanding at June 30, 2008 was 39.1 million compared to 39.0 million at June 30, 2007. Of the 39.0 million outstanding at June 30, 2007, 17.8 million were issued on June 21, 2007 and thus, there were no distributions paid on these units in the second quarter of 2007.

The REIT made principal repayments of \$1.0 million and \$0.4 million for the three months ended June 30, 2008 and 2007, respectively.

SIX MONTHS ENDED JUNE 30, 2008 and 2007

Results of Operations

The results of operations for the six months ended June 30, 2008 include the operation of twenty-two hotels for the full six months. The dollar value of revenues and expenses has increased substantially when comparing the six months results for 2008 to the first six months of 2007 due to the number of acquisitions made during the last nine months of 2007.

Hotel Operations

The hotel properties generated revenue of approximately \$46.4 million for the six months ended June 30, 2008 compared to \$22.6 million for the six months ended June 30, 2007. Hotel EBITDA has increased to \$15.6 million from \$6.2 million, an increase of 150%. Depreciation and amortization has increased substantially due to the growth in the asset base.

Key Performance Measures

The following table provides information on occupancy, ADR and RevPAR for the six months ended June 30, 2008.

Region	6 Months Ended June 30, 2008		
	Occupancy	ADR	RevPAR
Atlantic Canada	68.74%	\$120.57	\$82.88
Western Canada	64.31%	\$147.56	\$94.90
United States	60.57%	\$93.67	\$56.74
Totals	64.87%	\$140.40	\$91.08

Overall demand during the six months ended June 30, 2008 was particularly strong in downtown Halifax, NS, Yellowknife, NT, Whitecourt, AB, Fort McMurray, AB, Kamloops, BC, and Fort St. John, BC.

Same Hotel Key Performance Measures

The following table provides information on occupancy, ADR and RevPAR for the six months ended June 30, 2008 and June 30, 2007, for the eight hotels which were owned for the entire six months in 2007 and 2008.

Region	6 Months Ended June 30, 2008			6 Months Ended June 30, 2007			RevPAR Change
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	
Atlantic Canada	68.74%	\$120.57	\$82.88	70.18%	\$114.79	\$80.56	2.9%
Western Canada	65.22%	\$133.63	\$87.15	67.36%	\$130.92	\$88.19	(1.2%)
Totals	66.74%	\$127.82	\$85.31	68.58%	\$123.79	\$84.90	0.5%

The Atlantic Canada RevPAR has increased 2.9% for the six months ended June 30, 2008 compared to the six months ended June 30, 2007, due primarily to strong results in Moncton and Truro. The RevPAR of the Moncton competitive set experienced strong growth year over year as the market returned to the 2006 levels after a decline in 2007 due to new supply. Both the downtown and suburban Halifax competitive sets are down slightly for the first six months of 2008 versus the same period in 2007. However, both the Radisson Suite Hotel in Halifax and the Holiday Inn Express in Halifax continue to lead their respective competitive sets year to date. Both the Moncton and the Halifax markets have experienced new entrants to their respective competitive sets' within the last year.

Western Canada RevPAR declined by 1.2% compared to the six months ended June 30, 2007. ADR growth of 2% was achieved while occupancy declined. The Five Calgary Downtown Suites & Spa Hotel and the Super 8 in Yellowknife achieved sufficient ADR growth versus the prior year to increase RevPAR. Occupancy at the Wingate by Wyndham in Calgary has declined due primarily to decreased business from a high volume account which did not require a similar volume of accommodation in 2008 compared to 2007. In Drayton Valley, AB a new competitor that opened in the first quarter of 2007 and has been increasing their market share. Despite this, the Super 8 continues to lead their competitive set and their RevPAR decline versus the prior year is the least among the Super 8 compared with other members of the competitive set.

Hotel EBITDA

Reconciliation of the net income to hotel EBITDA is presented in the table below:

(in 000's)	Six months ended June 30, 2008	Six months ended June 30, 2007
Net income (loss)	(\$ 808)	\$ 388
Net trust expenses	3,845	1,796
Depreciation and amortization	6,544	2,238
Interest on loans payable and accretion of financing fees	5,753	2,198
Future income tax expense (recovery)	242	(382)
Hotel EBITDA	\$ 15,576	\$ 6,238
Number of rooms available	438,966	204,631
Hotel EBITDA per available room	\$35.48	\$30.48

Hotel EBITDA has increased by 150% due to the increase in the number of hotels owned by the REIT in the six months of 2008 compared to the six months of 2007. Hotel EBITDA per available room increased by 16% to \$35.48 from \$30.48 for the six months ended June 30, 2008 and 2007, respectively.

Hotel EBITDA Margin Analysis

The following table provides the REIT's hotel margins for its base portfolio and its 2007 acquisitions for the six months ended June 30, 2008 and 2007.

(in 000's)			
2008	Base Portfolio	2007 Acquisitions ⁽¹⁾	Total
Hotel revenues	\$ 17,495	\$ 28,882	\$ 46,377
Hotel cost of sales	5,801	8,242	14,043
Hotel gross profit	\$ 11,694	\$ 20,640	\$ 32,334
Percentage	66.8%	71.5%	69.7%
Hotel overhead expenses ⁽²⁾	\$ 7,177	\$ 9,581	\$ 16,758
Hotel EBITDA	\$ 4,517	\$ 11,059	\$ 15,576
Hotel EBITDA margin	25.8%	38.3%	33.6%
2007			
Hotel revenues	\$ 18,464	\$ 4,170	\$ 22,634
Hotel cost of sales	6,363	1,500	7,863
Hotel gross profit	\$ 12,101	\$ 2,670	\$ 14,771
Percentage	65.5%	64.0%	65.3%
Hotel overhead expenses ⁽²⁾	\$ 7,341	\$ 1,192	\$ 8,533
Hotel EBITDA	\$ 4,760	\$ 1,478	\$ 6,238
Hotel EBITDA margin	25.8%	35.4%	27.6%
Variance			
Hotel revenues	(\$ 969)	\$ 24,712	\$ 23,743
Hotel cost of sales	562	(6,742)	(6,180)
Hotel gross profit	(\$ 407)	\$ 17,970	\$ 17,563
Percentage	1.3%	7.5%	4.4%
Hotel overhead expenses ⁽²⁾	\$ 164	(\$ 8,389)	(\$ 8,225)
Hotel EBITDA	(\$ 243)	\$ 9,581	\$ 9,338
Hotel EBITDA margin	0.0%	2.9%	6.0%

⁽¹⁾ The 2007 acquisitions represent hotels acquired in 2007.

⁽²⁾ Hotel overhead expenses include sales, marketing, general, administrative, maintenance, utilities, property taxes, insurance, management and other fees, land lease expense and foreign exchange. These expenses exclude depreciation, amortization, interest on mortgages and loans and accretion of deferred financing fees.

The increase in the hotel EBITDA margin to 33.6% from 27.6% for the six months ended June 30, 2008 and 2007, respectively was a result of the 2007 acquisition of properties located in markets with higher ADR relative to our base portfolio along with Holloway's continued focus on higher margin limited service hotels. The base portfolio EBITDA margin remained the same as the prior year at 25.8%. The lower cost of sales is a result of operating efficiencies due to the lease out of the food and beverage operation at the Radisson Suite Hotel in Halifax and closing the restaurant at the Holiday Inn Express and Suites in Moncton. These changes also accounted for the lower revenues as the decline in the low margin food and beverage revenue was partially offset by higher margin room revenue in markets such as Moncton, Truro and Yellowknife. The acquisition portfolio EBITDA margin increased to 38.3% from 35.4% primarily due to the performance of the Radisson Hotel and Suites in Fort McMurray.

Corporate Operations

Corporate net trust expenses were \$3.8 million for the six months ended June 30, 2008 and \$1.8 million for the six months ended June 30, 2007. Debenture interest expense and the non-cash accretion of the discount on the debentures has increased to \$3.6 million from \$1.3 million as the REIT presently has \$72.1 million in debentures outstanding. During the first six months of 2007, the REIT had \$20.4 million in debentures outstanding until June 22, 2007, when \$45.0 million in debentures were issued. During the six months ended June 30, 2008, the REIT generated interest income of \$1.4 million from loans receivable and the investment of cash balances, compared to \$0.9 million in the first six months of 2007.

General and administrative expenses were \$1.3 million for the six months ended June 30, 2008 compared to \$0.9 million for the six months ended June 30, 2007. These expenses include salaries and benefits of employees of the REIT, travel, fees related to legal, audit and annual filings, and other expenses. The increase is due to the growth of the REIT. In addition, some of the corporate expenses tend to be higher in the first half of the year due to the timing of annual reporting, meeting and regulatory fee payments.

Funds from Operations (“FFO”)

FFO for the six months ended June 30, 2008 was \$5.9 million (\$0.15 basic and diluted FFO per unit) compared to \$2.2 million (\$0.12 basic and diluted FFO per unit) for the same period in 2007. The significant growth in the portfolio of hotels has been the driver of the growth in funds from operations in the first six months of 2008 compared to the first six months in 2007.

Distributable Income

The REIT generated \$6.1 million in distributable income (\$0.16 basic and diluted per unit) for the six months ended June 30, 2008 compared to \$2.1 million (\$0.12 basic and diluted per unit) for the same period in 2007. Distributions of \$0.045 per unit per month were declared and totalled \$10.6 million for the six months ended June 30, 2008. Distributable income will fluctuate due to the seasonality in the hospitality industry and the timing of acquisitions.

The REIT’s distributions exceeded the distributable income for the first six months of 2008. Business levels were affected by reduced natural gas exploration and the uncertainty surrounding changes in royalty arrangements by the Alberta government. Excess, un-deployed cash was used to fund the distribution shortfall. To help mitigate this shortfall and as described in the “RELATED PARTY AGREEMENTS” section, effective February 1, 2008, the management of 10 hotels purchased in June 2007 is now being performed by Pacrim Hospitality Services Inc. at a substantially reduced fee.

Cash flow for the Six Months Ended June 30, 2008 and 2007

During the six months ended June 30, 2008, the REIT’s cash and cash equivalents decreased by approximately \$14.3 million from \$22.9 million to \$8.6 million, primarily due to distributions exceeding the distributable income and the \$6.4 million loan to Pacrim Hospitality Services Inc. (“PHSI”) as described in the RELATED PARTY AGREEMENTS section. For the comparative period in 2007, cash and cash equivalents increased by \$4.5 million from \$32.0 million to \$36.4 million, primarily due to cash from the June 21, 2007 capital raise that had not been deployed.

Operating Activities

Cash flow from operations was approximately \$6.0 million for the six months ended June 30, 2008 reflecting the cash generated by the hotels and the corporate operations of the REIT. For the six months ended June 30, 2007 cash flow from operations was \$2.4 million. Changes in non-cash working capital balances utilized approximately \$1.6 million during the six months ended June 30, 2008, compared to \$0.3 million in the six months ended June 30, 2007. An increase in accounts receivable at June 30, 2008 was the primary reason for the change in working capital balances.

Investing Activities

Investing activities utilized \$7.2 million in cash during the six months ended June 30, 2008. For the six months ended June 30, 2007, investing activities utilized \$244.3 million primarily due to the acquisition of ten hotels on June 22, 2007. In the first six months of 2007, the REIT acquired the Radisson Hotel and Suites in Fort McMurray, the Super 8 motel in Three Hills, Alberta and a portfolio of ten hotels located in Alberta and British Columbia.

During the six months ended June 30, 2008 and 2007, the REIT's capital reserves for replacement and improvements increased by \$1.1 million and decreased by \$0.4 million, respectively. There were additions of \$1.5 million to property and equipment primarily at the Radisson Hotel and Suites in Fort McMurray, Alberta and the Radisson Suite Hotel in Halifax, Nova Scotia during the six months ended June 30, 2008.

The decrease in the restricted cash of \$1.8 million during the six months ended June 30, 2008 represents the release of funds related to the Pomeroy Inn and Suites hotel. In connection with mortgage financing on this property acquired in June 2007, the REIT issued a standby letter of credit in the amount of \$2.8 million in favor of the mortgage lender, secured by the restricted cash. As the repairs are now complete, the restricted cash for the Pomeroy Inn and Suites has been completely released.

Financing Activities

Financing activities utilized \$13.0 million during the six months ended June 30, 2008, compared to providing \$246.3 million during the six months ended June 30, 2007.

During the six months ended June 30, 2007, the REIT obtained mortgage financing of \$116.6 million related to the properties acquired. The REIT made principal repayments of \$2.0 million and \$0.8 million for the six months ended June 30, 2008 and 2007, respectively.

On June 21, 2007, the REIT issued 17.758 million units at a price of \$5.35 per unit for gross proceeds of \$95.0 million and \$45.0 million aggregate principal amount of 6.5% convertible debentures.

The REIT paid distributions to unitholders of approximately \$10.6 million for the six months ended June 30, 2008, compared to \$3.7 million in the six months ended June 30, 2007. The number of units outstanding at June 30, 2008 was 39.1 million compared to 39.0 million at June 30, 2007. Of the 39.0 million outstanding at June 30, 2007, 17.8 million were issued June 21, 2007 and therefore there were no distributions paid on these units in the first and second quarters of 2007.

The REIT re-purchased and cancelled 51,600 units under its normal course issuer bid which utilized \$0.2 million in cash during the six months ended June 30, 2008.

SUMMARY OF QUARTERLY RESULTS

The following table provides a summary of the quarterly operating results.

(in 000's except per unit results)	Q2,2008	Q1, 2008	Q4, 2007	Q3, 2007	Q2, 2007	Q1, 2007	Q4, 2006	Q3, 2006
Total revenues (hotel and trust)	\$ 24,364	\$ 23,416	\$ 22,329	\$ 25,724	\$ 13,404	\$ 10,088	\$ 8,787	\$ 6,693
Hotel revenues	\$ 23,669	\$ 22,708	\$ 22,258	\$ 24,858	\$ 12,988	\$ 9,647	\$ 8,610	\$ 6,693
Hotel expenses	21,774	21,324	21,764	21,200	11,673	9,160	8,213	5,190
Income from hotel operations	1,895	1,384	494	3,658	1,315	487	397	1,503
Net trust expenses	1,870	1,976	1,778	1,448	910	886	1,669	731
Future income tax recovery (expense)	(203)	(39)	1,138	(933)	* 382	–	–	–
Net income (loss) for the period	\$ (178)	\$ (631)	\$ (146)	\$ 1,277	\$ 787	\$ (399)	\$ (1,272)	\$ 772
Per Unit Results:								
Basic earnings per unit	–	–	0.00	0.03	0.04	–	–	0.08
Diluted earnings per unit	–	–	0.00	0.03	0.04	–	–	0.06
Basic and diluted loss per unit	(0.01)	(0.02)	–	–	–	(0.02)	(0.15)	–
Basic FFO per unit	0.08	0.07	0.05	0.13	0.09	0.03	(0.03)	0.13
Diluted FFO per unit	0.08	0.07	0.05	0.13	0.09	0.03	(0.03)	0.10
Basic distributable income per unit	0.08	0.07	0.05	0.13	0.08	0.03	0.01	0.13
Diluted distributable income per unit	0.08	0.07	0.05	0.13	0.08	0.03	0.01	0.10
Occupancy	65.69%	64.04%	60.43%	70.26%	69.28%	65.74%	65.29%	86.94%
ADR	\$141.06	\$139.71	\$139.09	\$144.91	\$134.54	\$121.97	\$115.71	\$120.38
Revpar	\$92.66	\$89.47	\$84.05	\$101.81	\$93.21	\$80.18	\$75.55	\$104.66

* Q2 2007 figures were revised to reduce the future income tax recovery by \$1,906 and to reduce the related future income tax asset. This adjustment is required to properly reflect all the temporary timing differences in the determination of the future tax recovery.

LIQUIDITY AND WORKING CAPITAL

As at June 30, 2008, the REIT had working capital of approximately \$1.7 million. In addition, the REIT had un-drawn operating lines of credit totaling \$9.7 million. Cash from operations will fluctuate due to the seasonality in the hospitality industry. Based on our expected cash flow from operations, the REIT has sufficient working capital to meet its ongoing commitments and expenditures.

Mortgages Payable

As at June 30, 2008, the REIT had total mortgage debt outstanding of \$167.2 million, excluding deferred financing fees of \$1.3 million which have been netted against mortgages payable in the financial statements with a weighted average interest rate of 6.76%. A first charge on the majority of the properties is pledged as security for the mortgages. The mortgages mature on various dates from April, 2010 to July, 2017. The weighted average maturity is 6.8 years.

Financial Commitments

The following chart summarizes the REIT's future financial commitments as at June 30, 2008.

(in \$000s)	Remainder of 2008	2009	2010	2011	2012	Thereafter
Mortgages payable – principal	\$ 2,200	\$ 5,078	\$ 13,861	\$ 36,449	\$ 17,660	\$ 91,962
Mortgages payable – interest	5,666	11,093	10,218	9,571	6,514	25,784
Obligations under capital leases	206	356	262	88	24	20
Vehicle loans - principal	29	60	34	4	-	-
Vehicle loans - interest	4	5	1	-	-	-
Convertible debentures	-	-	-	20,238	51,844	-
Convertible debentures - interest	2,495	4,989	4,989	4,310	1,588	-
Land lease	62	123	123	123	123	6,396
Operating leases	84	86	39	30	18	1
Total	\$ 10,746	\$ 21,790	\$ 29,527	\$ 70,813	\$ 77,771	\$ 124,163

The total debt (including loans and obligations under capital leases) to gross book value (“GBV”) was 39.8% at June 30, 2008 (June 30, 2007 – 40.4%) and the total debt plus the face value of convertible debentures to GBV was 57.0% at June 30, 2008 (June 30, 2007 – 55.8%).

UNIT INFORMATION

	June 30, 2008	June 30, 2007
Units outstanding	39,120,049	38,573,317
Options outstanding (exercisable)	783,289	392,333
Conversion of convertible debentures (conversion price \$5.40)	3,747,778	3,747,778
Conversion of convertible debentures (conversion price \$6.15)	7,317,073	7,317,073
Total units reflecting exercise and conversion	50,968,189	50,030,501

NORMAL COURSE ISSUER BID

On December 11, 2007, Holloway initiated a Normal Course Issuer Bid (“NCIB”) to repurchase a maximum of 1.0 million of its issued and outstanding trust units. Management and the trustees believe that the market value of the units may, from time to time, not reflect the value of the REIT and thus have implemented the NCIB in its objective of delivering value to its unitholders. During the three months ended June 30, 2008, the REIT did not purchase any units under the NCIB. For the six months ended June 30, 2008 the REIT purchased 51,600 units under the NCIB at an average cost of \$3.63.

RELATED PARTY AGREEMENTS

Hotel Management Agreement

Pacrim Hospitality Services Inc.

On June 7, 2006, the REIT entered into a long-term management agreement with Pacrim Hospitality Services Inc. ("PHSI"), a related party, to manage certain hotels purchased by the REIT, with an initial term of ten years and an automatic renewal for successive five year terms commencing on the last day of the initial term. PHSI is entitled to a base management fee of 3% of gross hotel revenues, an incentive fee, a purchasing fee of 4% of the cost of exceptional operating supplies and furniture, fixtures and equipment, a construction fee of 3% of the cost of construction materials, labour and equipment in connection with any construction or capital expenditures and an accounting fee per hotel which currently ranges from \$20,000 to \$35,400 per year depending on the size of the hotel when accounting services are provided by PHSI. In addition, Intergy, a division of PHSI provides central reservation services and website development and maintenance for the hotels purchased by the REIT. A commission of 10% is paid on reservations made through Intergy.

On November 24, 2006, the parties entered into an amending agreement such that the initial term with respect to each hotel shall commence on the date on which the REIT acquires the hotel for a term of ten years and automatic renewals for successive five-year terms.

On June 22, 2007, the REIT entered into a management agreement with Pomeroy Hospitality Ltd. ("Pomeroy") to manage ten hotels purchased by the REIT, with a term of five years. On February 1, 2008, PHSI acquired management of ten of the REIT's hotel properties located in northern Alberta and British Columbia from Pomeroy. The REIT acquired the hotels (the "Pomeroy Hotels") from affiliates of Pomeroy in June, 2007. Under the terms of an agreement among the REIT, PHSI and Pomeroy, Pomeroy assigned its interest in the hotel management agreement between Pomeroy and the REIT to PHSI on February 1, 2008 in return for a \$6.35 million one-time payment from PHSI. At the same time, the existing hotel management agreement between the REIT and PHSI was amended to include the Pomeroy Hotels. Among other things, the amended hotel management agreement between the REIT and PHSI provides that PHSI receive a base management fee for the Pomeroy Hotels that is significantly lower than the base management fee payable under the previous hotel management agreement with Pomeroy until the REIT generates distributable income that exceeds certain targets.

In order to facilitate the assignment, the REIT loaned PHSI the funds that were paid to Pomeroy in consideration of the assignment. This loan has a ten year term, is pre-payable at any time without penalty and bears interest at 13% per annum during the first six months of the term and at the lesser of 13% and the trailing three-month yield plus 1% on Holloway's units thereafter.

Development Agreement

On June 7, 2006, the REIT entered into a long-term development agreement with Winport Developments Inc. ("Winport"), a related party, to provide mezzanine financing to Winport and to have the option to purchase properties developed by Winport. The agreement has an initial term of ten years with an automatic renewal for five year terms thereafter. On October 6, 2006, the development agreement was assigned to Winport Developments Limited Partnership, a related party. On May 15, 2007, Winport Developments Inc. was re-instated as an approved developer and recipient of mezzanine loans.

RISKS AND UNCERTAINTIES

There are a number of risks inherent in an investment in the REIT. The underlying value of the properties and the REIT's income and ability to make distributions to unitholders will depend on the ability of the REIT to increase revenues from the properties and to generate income in excess of operating expenses. The REIT directly or indirectly owns and operates hotels. As a result, the REIT is subject to the operating risks inherent in the hotel industry. These risks include cyclical downturns arising from changes in general and local economic conditions, changes in the level of business and commercial travel and tourism, increases in the supply of accommodations in local markets, competition from other hotels, the recurring need for renovation, refurbishment and improvement of hotel properties, changes in wages, prices, energy costs and construction and maintenance costs, availability of financing for operating or capital requirements, seasonal fluctuations in hotel operating income produced throughout the year and other factors.

Although the REIT intends, to the extent possible, to make equal monthly cash distributions to the unitholders, such cash distributions are not guaranteed and may fluctuate with its performance. The REIT depends on revenue generated from the properties to make such distributions. The amount of distributable income will depend upon numerous factors, including the profitability of the properties, fluctuations in working capital, interest rates, capital expenditures and other factors which may be beyond the control of the REIT.

In addition, there are a number of other risk factors associated with the REIT. These include risks related to real property ownership; risks related to the business of the REIT, including the hotel industry, competition, acquisition strategy, development arrangements, franchised hotels, availability of additional capital, debt financing and reliance on key personnel; and risks relating to the structure of the REIT. Additional information on these risks and uncertainties are described under "Risk Factors" in Holloway's Annual Information Form ("AIF"), dated March 28, 2008 which is available at www.sedar.com.

OUTLOOK

According to Statistics Canada, the Canadian economy has only expanded by 0.6% over the course of the last 12 months ending May, 2008. May GDP unexpectedly weakened, dropping 0.1% following a strong jump in April, and in spite of market expectations for a slight increase.

The weaknesses were largely concentrated in the manufacturing sector of the economy and wet weather had an impact on certain elements of this sector as well.

Recent surveys of forecasters completed by the Conference Board of Canada indicate an expectation for expansion of the economy by 1.2% in 2008, down slightly from their growth forecasts this past spring.

In the lodging industry, performance is heavily influenced by local economic conditions, as well as the segment orientation of properties.

That said, PKF Consulting Inc. has indicated that national RevPAR will grow in Canada in 2008 by 3.6%, and that Western Canada markets will lead the way as they did in 2007. RBC Economics Research is supportive of this regional skew as well as noted in their July 2008 Provincial Outlook, which calls for Saskatchewan, Alberta, and Manitoba to lead the way in real GDP growth for 2008.

The Holloway Lodging portfolio of hotels is well positioned from a geographic distribution perspective and a product segment perspective to capitalize on the market opportunities that have been forecast for 2008. Holloway remains committed to building sustainable distributions and growing the underlying value for its unitholders during what is still forecast to be a positive year for the hotel industry in Canada in 2008.

SIGNIFICANT ACCOUNTING POLICIES

Changes to Canadian GAAP

Management of the REIT monitors new accounting pronouncements issued by the Canadian Institute of Chartered Accountants (“CICA”).

Commencing with the first quarter of 2008, the REIT adopted four new accounting standards issued by the Accounting Standards Board of the CICA as follows: (i) Section 3862 Financial Instruments - Disclosures; (ii) Section 3863 Financial Instruments - Presentation; (iii) Section 1535 Capital Disclosures; and (iv) Section 3031 Inventories. The new standards on financial instruments require disclosures related to the significance of financial instruments on the REIT’s financial position and performance and the nature and extent of risk arising from financial instruments to which the REIT is exposed and how the REIT manages these risks. The new standards on capital disclosures establish disclosure requirements about the REIT’s capital and how it is managed. The new standards on inventories replace the existing standards, revising and enhancing disclosure and presentation requirements. There has been no impact as to how the REIT accounts for inventory.

Note 2 to the unaudited interim consolidated financial statements for the three and six months ended June 30, 2008 explain the impact of these changes in accounting policies.

Future Changes to Canadian GAAP

On February 13, 2008, the Canadian Accounting Standards Board (AcSB) confirmed the mandatory changeover date to International Financial Reporting Standards (“IFRS”) for all Canadian profit-oriented publicly accountable entities. This means that the REIT will be required to prepare IFRS financial statements for interim periods and fiscal years beginning in 2011. Work is currently underway to evaluate the impact this will have on the REIT’s financial statements.

TAX RULES FOR INCOME TRUSTS

On October 31, 2006, The Minister of Finance (Canada) announced proposals (the “SIFT Proposals”) to amend the Tax Act to change the taxation regime applicable to certain “specified investment flow-through” entities (“SIFTs”), including certain income trusts and their investors. Under the provisions of Bill C-52, Budget Implementation Act, 2007, which was substantively enacted on June 12, 2007, the REIT, as a publicly traded income trust, is considered a SIFT. Under Bill C-52, certain distributions from a SIFT will no longer be deductible in computing a SIFT’s taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital generally will not be subject to the tax.

As the REIT has exceeded the “normal growth” rates as defined in the guidelines issued by the Department of Finance, the REIT became subject to the tax commencing in 2007. Accordingly, the REIT has recorded future income tax based on temporary differences that are expected to reverse in the future at the substantively enacted tax rates, which will be in effect at the time the temporary differences are expected to reverse. Distributions from the REIT will be subject to the tax unless they qualify as returns of capital. The REIT’s 2007 distributions were 100% a return of capital.

INTERNAL CONTROLS

There have been no changes in the REIT's internal control over financial reporting that occurred during the most recent interim period ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, the REIT's internal controls over financial reporting.

FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking information within the meaning of applicable securities laws. Forward-looking information may relate to the REIT's future outlook and anticipated events or results and may include statements regarding the future financial position, property acquisition strategies and opportunities, business strategy, financial results and plans and objectives of the REIT. Particularly, statements regarding the REIT's future operating results, property acquisition strategies and opportunities and economic performance are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or similar expressions concerning matters that are not historical facts. Forward-looking information is subject to certain facts, including risks and uncertainties, that could cause actual results to differ materially from what the REIT currently expects and there can be no assurance that such statements will prove to be accurate. Some of these risks and uncertainties are described under "Risk Factors" in Holloway's Annual Information Form ("AIF"), dated March 28, 2008 which is available at www.sedar.com. The REIT does not intend to update or revise any such forward-looking information should its assumptions and estimates change.